

EXHIBIT B

1
2 IN THE UNITED STATES DISTRICT COURT

3 FOR THE DISTRICT OF PUERTO RICO

4 _____x
In re:

5 THE FINANCIAL OVERSIGHT AND
6 MANAGEMENT BOARD FOR PUERTO
7 RICO,

PROMESA

Title III

as representative of

8 THE COMMONWEALTH OF PUERTO RICO,
9 et al.,

Debtors.

_____x
10 In re:

11 THE FINANCIAL OVERSIGHT AND
12 MANAGEMENT BOARD OF PUERTO RICO,

PROMESA

Case No.

17 BK 4780-LTS

13 as representative of

14 PUERTO RICO ELECTRIC POWER AUTHORITY,
15 Debtor.

_____x
16 (Caption continued on following page.)

17 * P R O F E S S I O N A L E Y E S O N L Y *

18 VIDEOTAPED DEPOSITION

19 OF

20 FREDERIC CHAPADOS

21 New York, New York

22 Monday, October 7, 2019

23
24 Reported by:

ANNETTE ARLEQUIN, CCR, RPR, CRR, CLR

25 JOB NO. 169099

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<p>1 F. Chapados - Professional Eyes Only</p> <p>2 Q. Was that a meeting about the RSA?</p> <p>3 A. I think it was a broader meeting</p> <p>4 about the RSA.</p> <p>5 Q. Okay. What did you talk about?</p> <p>6 MR. HAMERMAN: Objection.</p> <p>7 Insofar as it may call for disclosure</p> <p>8 of common interest communications, can</p> <p>9 we get a little bit more specific here</p> <p>10 in terms of time frame and --</p> <p>11 MR. NATBONY: Same objection.</p> <p>12 MR. HAMERMAN: -- things like</p> <p>13 that?</p> <p>14 BY MR. ARASTIA:</p> <p>15 Q. When did you talk to him?</p> <p>16 A. I can recall a meeting. I do not</p> <p>17 recall the specific date.</p> <p>18 Q. Okay. Do you recall a general</p> <p>19 date?</p> <p>20 A. I believe it was earlier this</p> <p>21 year.</p> <p>22 Q. Where was it?</p> <p>23 A. I believe that it was at</p> <p>24 Proskauer's offices.</p> <p>25 Q. What did you talk about?</p>	<p>1 F. Chapados - Professional Eyes Only</p> <p>2 MR. HAMERMAN: Objection.</p> <p>3 MR. NATBONY: Same objection.</p> <p>4 MR. HAMERMAN: You need to be a</p> <p>5 little more specific. If you want to</p> <p>6 test the privilege, that's fine. If</p> <p>7 you want to ask general subjects,</p> <p>8 that's fine. But what did you talk</p> <p>9 about seems to be potentially broaching</p> <p>10 into privileged topics, so I'd ask for</p> <p>11 further clarity on this.</p> <p>12 BY MR. ARASTIA:</p> <p>13 Q. Do you know what you talked</p> <p>14 about?</p> <p>15 A. I think it was the broad RSA.</p> <p>16 Q. Anything else?</p> <p>17 A. I believe there were specific</p> <p>18 questions as to the servicing of the RSA.</p> <p>19 Q. Okay. Anything other than the</p> <p>20 RSA?</p> <p>21 A. I cannot recall specifically.</p> <p>22 Q. But you do recall discussing the</p> <p>23 RSA?</p> <p>24 A. I believe there was a discussion</p> <p>25 about the RSA, yes.</p>
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<p>1 F. Chapados - Professional Eyes Only</p> <p>2 Q. Did you talk about the RSA with</p> <p>3 Mr. Gana?</p> <p>4 A. Can you clarify who Mr. Gana is?</p> <p>5 Q. He's an individual at Assured?</p> <p>6 Are you familiar with Assured?</p> <p>7 A. I have not had any discussions</p> <p>8 with anyone at Assured.</p> <p>9 Q. How about with anyone at</p> <p>10 National?</p> <p>11 A. I have not.</p> <p>12 Q. Syncora?</p> <p>13 A. I have not.</p> <p>14 Q. Going back to your declaration,</p> <p>15 Exhibit 1, do you know who drafted that?</p> <p>16 A. Exhibit 1 is the RFQ, right?</p> <p>17 Q. No. Exhibit 1 is your</p> <p>18 declaration. The RFQ is attached to it.</p> <p>19 A. Can you clarify which is</p> <p>20 Exhibit 1? Sorry about that.</p> <p>21 Q. It's got the little sticker.</p> <p>22 Looks like this (indicating) --</p> <p>23 A. Oh, yes.</p> <p>24 Q. -- and it says 1.</p> <p>25 A. Who drafted it? Yeah, I was</p>	<p>1 F. Chapados - Professional Eyes Only</p> <p>2 involved in drafting it.</p> <p>3 Q. Okay. Aside from your attorneys,</p> <p>4 did you talk to anyone else about that</p> <p>5 declaration?</p> <p>6 A. I believe I spoke primarily with</p> <p>7 Goodwin, and I believe Proskauer also</p> <p>8 looked at it.</p> <p>9 Q. Do you disagree with anything</p> <p>10 today that's in that declaration?</p> <p>11 A. I believe it is still accurate.</p> <p>12 Q. So you still believe that the RSA</p> <p>13 is beneficial to the proposed</p> <p>14 transformation?</p> <p>15 A. That is my belief.</p> <p>16 Q. Would it be fair to say that</p> <p>17 based on your declaration, you think that</p> <p>18 there's three ways that the RSA will help</p> <p>19 with the proposed transformation?</p> <p>20 MR. MASHBERG: Objection to form.</p> <p>21 A. I believe that is correct.</p> <p>22 Q. And that's resolving legacy bond</p> <p>23 debt, one? Resolving receivership</p> <p>24 litigation is two? And facilitating</p> <p>25 PREPA's emergence from Title III is the</p>

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<p>1 F. Chapados - Professional Eyes Only 2 third? 3 A. I believe those are them. 4 Q. Is there any other benefit that 5 you perceive to the RSA -- that you 6 perceive that the RSA provides to the 7 proposed transformation? 8 A. I think those are the three 9 primary ones. 10 Q. And you believe the RSA is 11 beneficial for the transformation, both the 12 T&D operation, as well as the privatization 13 of the generation assets? 14 A. It is broadly helpful for the 15 transformation. 16 Q. Is it broadly helpful to each of 17 those two aspects of the proposed 18 transformation? 19 A. Yes, it would impact both 20 aspects. 21 Q. How would it impact the 22 privatization of generation assets? 23 A. I believe the legacy PREPA debt 24 was raised on the entirety of the system, 25 not just the T&D portion. And so the same</p>	<p>1 F. Chapados - Professional Eyes Only 2 concerns apply to both the T&D and the 3 generation assets. 4 Q. So the legacy debt, you 5 understand that to be raised on the 6 generation assets? 7 A. It was raised -- 8 MR. MASHBERG: Objection to form. 9 A. Can you clarify -- 10 Q. I'm trying to understand what you 11 said. 12 A. It was raised on behalf of the 13 entire electric system, which would 14 comprise both the T&D and the generation 15 assets. 16 Q. Where did you get that 17 understanding? 18 A. In my discussions with Citi team 19 members. 20 Q. If you look at paragraph 17, 21 which is page 5. 22 (Witness complies.) 23 Q. It says here, "Based on my 24 experience..." 25 What experience did you rely on</p>
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<p>1 F. Chapados - Professional Eyes Only 2 in formulating this statement in paragraph 3 17? 4 A. It is my broad transaction 5 experience. 6 Q. So your broad transactional 7 experience assists you in determining what 8 a potential operator would want? 9 A. That is correct. 10 Q. Okay. Did you ask any potential 11 operator what they wanted? 12 MR. MASHBERG: Objection to form. 13 A. Can you clarify that question? 14 Q. Well, you say in your 15 declaration, "Any potential operator 16 performing the risk-benefit analysis to 17 determine whether to undertake this project 18 would look for a clear picture of the 19 legal, financial, operational, 20 and regulatory environments in which it 21 would be operating should its proposal be 22 successful." 23 What I'm asking is, did you ask 24 any potential operator: What are you 25 looking for?</p>	<p>1 F. Chapados - Professional Eyes Only 2 A. Those statements, those 3 conditions are typical for any sort of 4 transaction broadly. My statement is 5 correct that we believe that any operator 6 in any sort of M&A transaction, it is 7 common sense that people are looking to 8 understand the legal, financial, regulatory 9 and operational environment -- 10 Q. Okay. 11 A. -- that they're entering into a 12 major transaction. 13 Q. Okay. And that is a broad 14 understanding? 15 A. Yes. 16 Q. Okay. But then you go on, "In 17 particular, a potential operator would want 18 to understand the legal and financial 19 challenges facing PREPA, including but not 20 limited to an understanding regarding 21 projected costs that will need to be 22 included in PREPA's rates to customers 23 post-closing, including any additional 24 charges to satisfy restructured legacy debt 25 and ultimately PREPA's prospects and timing</p>

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2 for exiting Title 13."

3 Where did you get that
4 understanding that a potential operator
5 would want to understand those aspects?

6 MS. SPILLANE: Objection to form.

7 MR. MASHBERG: Objection. Asked
8 and answered.

9 A. In my work advising utilities,
10 they are very clearly always concerned
11 about customer rates. Any aspect, you know
12 -- any circumstance impacting rates would
13 be of concern to them.

14 Q. Okay. So this is based on
15 basically your training and your education
16 in this particular area?

17 A. And the transactions that I have
18 worked on, yes.

19 MR. NATBONY: Objection.

20 BY MR. ARASTIA:

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16 Q. Now would a potential operator
17 want to understand the legal and financial
18 challenges, is that to -- in order to price
19 its bid or would that be to whether or not
20 to accept the project?

21 A. I think it goes into both.

22 Q. Why would -- can you explain to
23 me why PREPA's rates to customers post
24 closing would be important to an operator
25 of the T&D assets?

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2 A. I mean, ultimately the customers
3 of the electric system are the ratepayers
4 and the operator will care about the rates
5 that are being charged to its customers.
6 It impacts are they able to pay for their
7 service on time.

8 MR. ARASTIA: Let's take a quick
9 five-minute break, please.

10 THE VIDEOGRAPHER: The time is
11 11:44 a.m. We are going off the record.
12 (Recess is taken.)

13 THE VIDEOGRAPHER: The time is
14 12:03 p.m. We are going back on the
15 record.

16 BY MR. ARASTIA:

17 Q. Mr. Chapados, I thought I heard
18 you testify that the legacy debt that's
19 referenced in paragraph 17 arises from or
20 is related to generation assets and T&D
21 assets.

22 Did I understand you correctly?

23 MS. SPILLANE: Objection to form.

24 A. I believe it's part -- the debt
25 was raised against the whole system.

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<p>1 F. Chapados - Professional Eyes Only 2 Q. Okay. Do you know if the debt is 3 secured by T&D assets? 4 MR. HAMERMAN: Objection. Calls 5 for a legal conclusion. 6 MR. MASHBERG: Objection to form. 7 BY MR. ARASTIA: 8 Q. Do you know what a security 9 interest is? 10 A. I do know what a security 11 interest is. 12 Q. Do you deal with security 13 interest every week in your business? 14 MS. SPILLANE: Objection to form. 15 BY MR. ARASTIA: 16 Q. I'm sorry? 17 A. I deal with some, yes. 18 Q. Okay. Do you know -- have you 19 ever seen any document entitled Security 20 Interest that you believe relates to a T&D 21 asset? 22 A. In specific to this Puerto Rico 23 transaction -- 24 Q. Yes. 25 A. -- or more broadly.</p>	<p>1 F. Chapados - Professional Eyes Only 2 Q. This specific Puerto Rico 3 transaction. 4 A. I do not believe I have. 5 Q. We talked a little bit about in 6 that paragraph, PREPA's rates to customers 7 post closing. 8 So there is a further discussion 9 in paragraph 23 on the next page. If we 10 could turn to paragraph 23, I'd appreciate 11 that. 12 A. Okay. 13 (Witness complies.) 14 Q. There, you say, "In finalizing 15 their proposals, potential operators will 16 want to understand the electricity rates." 17 Is your statement based on your 18 general training and experience? 19 A. Yes. 20 Q. It says, "Operators will 21 understand the electricity rates they would 22 need to charge customers to satisfy 23 operating costs, operator compensation, and 24 other financial obligations of the system, 25 including the new bonds under a plan of</p>
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<p>1 F. Chapados - Professional Eyes Only 2 adjustment." 3 Why do you believe that a 4 potential operator would want to understand 5 the electricity rates they'd need to 6 charge? 7 MS. SPILLANE: Objection to form. 8 A. It's a core component of being an 9 operator of an electric system. The rates 10 that you charge your customers are like the 11 prices you charge for any sale. I mean, 12 it's a key part of any business. 13 Q. Okay. If the -- well, would it 14 be fair to say that operating cost could be 15 a variable? 16 A. Operating cost will be variable. 17 MR. MASHBERG: Objection to form. 18 BY MR. ARASTIA: 19 Q. Okay. Is your belief, when you 20 put this paragraph together, that operator 21 compensation would be a variable? 22 A. It will be a variable. 23 Q. Okay. The final obligations -- 24 financial obligations of the system 25 including the new bonds under a plan of</p>	<p>1 F. Chapados - Professional Eyes Only 2 adjustment, is that variable or fixed? 3 MS. SPILLANE: Objection to form. 4 MR. MASHBERG: Objection to form. 5 A. Could you be more specific? 6 Q. Sure. 7 Do you know if there's -- in the 8 RSA, does it provide that there's going to 9 be a certain payment to satisfy the 10 financial obligations of the bonds? 11 A. There is a charge and it 12 escalates over time. 13 Q. Okay. Is that a fixed charge for 14 any specific period in time? 15 A. It is a fixed charge initially, 16 yes, and then it escalates. 17 Q. Would that fixed charge be the 18 same for any potential operator? 19 A. It would, yes. 20 Q. Okay. So other than operating 21 cost and operator compensation, are there 22 any other variables over which you believe 23 a potential bidder, potential operator, 24 would have control? 25 MS. SPILLANE: Objection to form.</p>

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<p>1 F. Chapados - Professional Eyes Only 2 MR. MASHBERG: Objection to form. 3 MR. NATBONY: Objection. 4 MR. HAMERMAN: Objection. 5 A. Can you restate your question? 6 Q. Sure. 7 You say potential operators want 8 to understand electricity rates. 9 What can a potential operator, in 10 your view, control with respect to the 11 electricity rates that it would need to 12 charge? 13 A. They would primarily control the 14 operating costs of the utility. 15 Q. And when you say "operating 16 costs," is that different than the 17 financial obligations with respect to the 18 new bonds under a plan of adjustment? 19 A. They are. 20 Q. So why does the financial 21 obligations and -- those financial 22 obligations for the new bonds would be the 23 same for any operator? 24 A. I believe I said that, yes. 25 MR. MASHBERG: Objection to form.</p>	<p>1 F. Chapados - Professional Eyes Only 2 BY MR. ARASTIA: 3 Q. Right. 4 So then why would a potential 5 operator care about the financial 6 obligations with respect to new bonds under 7 a plan of adjustment if it's something that 8 all of them have to pay and it's a fixed 9 charge? 10 MS. SPILLANE: Objection to form. 11 MR. HAMERMAN: Objection to the 12 form. 13 MR. NATBONY: Objection. 14 A. They will care about the overall 15 rates that are being charged to consumers 16 with any charge related to the existing 17 bonds as an important point of it. 18 Q. Okay. Why would they care about 19 the overall rates? 20 A. I think, as I've stated, the 21 rates charged to customers are a key 22 concern of any potential operator in Puerto 23 Rico or anywhere across the United States. 24 Q. Okay. What's the basis of the 25 concern?</p>
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<p>1 F. Chapados - Professional Eyes Only 2 A. Ultimately, you want to ensure 3 that the ratepayers can afford the rates 4 and that they can pay. 5 Q. So in this paragraph 23, that's 6 the basis of saying that a potential 7 operator will want to understand the 8 electricity rates they would need to charge 9 customers so that they could ensure that 10 the ratepayers can afford the rates? 11 A. At the end -- 12 MR. NATBONY: Objection. 13 A. At the end of the day, the single 14 source of revenue for a utility is 15 collection from ratepayers. At the end of 16 the day, you would want to make sure the 17 ratepayers can pay. It would be typical of 18 any business running an operation. 19 Q. And would it be fair to say that 20 if the rate is too high, there's a concern 21 that the consumers of electricity can't 22 pay? 23 A. At a certain point, yes, you 24 would be concerned about that. 25 Q. Do you know if the cost of</p>	<p>1 F. Chapados - Professional Eyes Only 2 electricity would in any way help or hinder 3 the economic stimulus of Puerto Rico? 4 MS. SPILLANE: Objection to form. 5 MR. HAMERMAN: Objection. 6 Outside of the scope of the 9019 7 hearings. 8 MR. NATBONY: Objection. 9 MR. MASHBERG: Objection to form. 10 BY MR. ARASTIA: 11 Q. Go ahead. 12 A. Can you clarify your question or 13 restate? 14 Q. Sure. 15 Do you know whether or not the 16 cost of electricity has any impact on the 17 potential for economic stimulus in Puerto 18 Rico? 19 MS. SPILLANE: Same objection. 20 MR. NATBONY: Same objection and 21 objection to form. 22 MR. HAMERMAN: Objection. 23 MR. MASHBERG: Objection. 24 A. Lawyers are advising me not to 25 answer that question. It's outside the</p>

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<p>1 F. Chapados - Professional Eyes Only 2 scope. 3 Q. No, no. No one has instructed 4 you not to answer. If they have, I 5 apologize, but I didn't hear that. I heard 6 an objection that could be resolved later. 7 A. In general, there is a linkage 8 between the overall price of electricity 9 and economic indicators. Generally lower 10 the cost of electricity is better. 11 Q. Did you understand from Governor 12 Rosselló when he put together the program 13 for transformation that one of his goals 14 with transformation was greater economic 15 development, revitalization, and growth of 16 Puerto Rico as set forth in paragraph 16 of 17 your declaration? 18 A. I believe that was an objective. 19 Q. Okay. So if the transformation 20 was bad for economic development, that 21 wouldn't contribute to the goals of the 22 transformation, would it? 23 MS. SPILLANE: Objection to form. 24 MR. MASHBERG: Objection to form. 25 MR. HAMERMAN: Objection.</p>	<p>1 F. Chapados - Professional Eyes Only 2 A. Can you clarify your statement? 3 Q. Okay. Would it be fair to say 4 that the setting of the rates for 5 electricity relate to the contribution to 6 greater economic development, 7 revitalization and growth of Puerto Rico? 8 MS. SPILLANE: Objection to form. 9 A. There is a link between 10 electricity rates and economic development. 11 Q. You used the word "link." 12 Would you categorize that as a 13 strong link? 14 A. There is a link. I am not 15 certain as to how strong it is. 16 Q. If we could go back to paragraph 17 20, on page 6. There you indicate that, 18 "In particular, when preparing the 19 proposals, I anticipate potential operators 20 will want to understand..." and then you 21 set forth some items. 22 You used a term "anticipate." 23 What is the basis for you 24 anticipating what potential operators will 25 want to understand?</p>
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<p>1 F. Chapados - Professional Eyes Only 2 A. As I've previously stated, 3 operators will need to know the rates that 4 are charged back to consumers. 5 Q. Okay. But where did you get that 6 from? 7 A. That is ten years of utility 8 experience. 9 Q. And you've been trained in the 10 utilities financial transactions, correct? 11 A. I have worked with utilities over 12 the past ten years on a variety of 13 financial transactions. 14 Q. Okay. Would you consider 15 yourself a specialist in utility financial 16 transactions? 17 A. I have worked for ten years. I 18 don't know if that makes me a specialist or 19 not. That's my work experience. 20 Q. No, that's fine. I'm just 21 wondering if you had an opinion -- 22 MS. SPILLANE: Objection to form. 23 BY MR. ARASTIA: 24 Q. -- on that. If you don't, that's 25 okay.</p>	<p>1 F. Chapados - Professional Eyes Only 2 A. I don't have an opinion on that. 3 Q. Is there any training at Citi 4 with respect to your job functions over 5 your career, or was it all just informal on 6 the job? 7 MS. SPILLANE: Objection to form. 8 A. I have attended various trainings 9 throughout my career. 10 Q. And it was all related to the job 11 you're currently doing? 12 A. Correct. 13 Q. So here you say that "A potential 14 operator will want to know the..." at the 15 end, "...the role of the operator, if any, 16 with respect to servicing restructured debt 17 obligations." 18 What do you mean by that? 19 A. At the end of the day, somebody 20 needs to collect payment for the customers 21 to pay for the restructured debt 22 obligations. 23 Q. Okay. Is that a ministerial task 24 of just tacking on a number on the bill or 25 does it involve more in your estimation?</p>

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<p>1 F. Chapados - Professional Eyes Only</p> <p>2 A. I believe it involves more than</p> <p>3 just simply that.</p> <p>4 Q. Okay. What does it involve in</p> <p>5 your view?</p> <p>6 A. There will need to be a charge</p> <p>7 placed on customer bills. Those dollars</p> <p>8 would then need to be put into -- revenues</p> <p>9 will be collected from customers. The</p> <p>10 dollars will go into a trust and be split</p> <p>11 up to the various different accounts at the</p> <p>12 end of the day.</p> <p>13 Q. Okay. And is that something that</p> <p>14 the trust will do or the potential operator</p> <p>15 will do?</p> <p>16 A. There will be a servicing</p> <p>17 agreement that will kind of walk through</p> <p>18 the roles and responsibilities of the</p> <p>19 servicer tied to exactly this overall</p> <p>20 process.</p> <p>21 Q. Okay. And has that been defined</p> <p>22 yet or is it still a work in progress?</p> <p>23 A. I believe the servicing agreement</p> <p>24 is still a work in progress.</p> <p>25 Q. Okay. The next paragraph,</p>	<p>1 F. Chapados - Professional Eyes Only</p> <p>2 paragraph 21 starts off, "I am advised..."</p> <p>3 and then it has a statement.</p> <p>4 By whom were you advised?</p> <p>5 A. Citi colleagues.</p> <p>6 Q. Non-lawyers?</p> <p>7 A. Other Citi colleagues.</p> <p>8 Q. Do you consider counsel at Citi</p> <p>9 to be your colleagues or is that a</p> <p>10 different function?</p> <p>11 A. I do not believe Citi's counsel</p> <p>12 has been -- Citi internal legal counsel has</p> <p>13 been involved in any of this.</p> <p>14 Q. Now you then say it's your</p> <p>15 understanding that the "RSA contemplates</p> <p>16 confirmation order to provide the operator</p> <p>17 protection against legacy liabilities of</p> <p>18 PREPA."</p> <p>19 What is your understanding as to</p> <p>20 how a confirmation order will provide the</p> <p>21 operator protection?</p> <p>22 A. Well, as part of a plan of</p> <p>23 reorganization, there will be a</p> <p>24 confirmation order that sets out how legacy</p> <p>25 liabilities have been resolved and if there</p>
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<p>1 F. Chapados - Professional Eyes Only</p> <p>2 is anything tied to the future potential</p> <p>3 operator.</p> <p>4 Q. Do you have an expectation that</p> <p>5 the payment of this legacy debt would be</p> <p>6 tied to a T&D operator?</p> <p>7 MS. SPILLANE: Objection to form.</p> <p>8 MR. HAMERMAN: Objection to form.</p> <p>9 MR. MASHBERG: Objection to form.</p> <p>10 A. Can you clarify your question?</p> <p>11 Q. Okay. Why would, as you</p> <p>12 understand it, PREPA's prepetition debt</p> <p>13 obligations, all right, be important to a</p> <p>14 T&D operator?</p> <p>15 A. At the end of the day, as I've</p> <p>16 stated, it all ties back to rates charged</p> <p>17 to customers.</p> <p>18 Q. And what protection would a</p> <p>19 confirmation order, as you understand it,</p> <p>20 provide an operator against the legacy</p> <p>21 liabilities of PREPA?</p> <p>22 A. I believe the confirmation order</p> <p>23 will make it clear that the operator is not</p> <p>24 liable itself for those payments.</p> <p>25 Q. Do you believe that there is a</p>	<p>1 F. Chapados - Professional Eyes Only</p> <p>2 concern that an operator could be liable</p> <p>3 for legacy liabilities with PREPA?</p> <p>4 MS. SPILLANE: Objection to form.</p> <p>5 MR. HAMERMAN: Objection insofar</p> <p>6 as it calls for a legal conclusion, the</p> <p>7 same thing as the last question.</p> <p>8 A. Can you clarify your question?</p> <p>9 Q. Sure.</p> <p>10 You indicate that the "RSA</p> <p>11 contemplates confirmation order to provide</p> <p>12 the operator protection."</p> <p>13 Is there, in your view, your</p> <p>14 understanding that the operator requires</p> <p>15 such protection?</p> <p>16 MR. NATBONY: Objection. Is</p> <p>17 there a question?</p> <p>18 MR. ARASTIA: Is it his</p> <p>19 understanding --</p> <p>20 MR. NATBONY: Oh, I'm sorry.</p> <p>21 MR. ARASTIA: -- that the</p> <p>22 operator require such protection?</p> <p>23 A. It is my belief that any operator</p> <p>24 in the circumstances would want to have</p> <p>25 those types of protection.</p>

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<p>1 F. Chapados - Professional Eyes Only</p> <p>2 Q. Do you know if the RSA is the</p> <p>3 only way to take this significant step</p> <p>4 towards resolving uncertainty regarding</p> <p>5 PREPA's prepetition debt?</p> <p>6 MS. SPILLANE: Objection to form.</p> <p>7 MR. MASHBERG: Objection to form.</p> <p>8 A. Can you clarify your question?</p> <p>9 MR. HAMERMAN: Objection.</p> <p>10 BY MR. ARASTIA:</p> <p>11 Q. Sure.</p> <p>12 You see where it says, "I'm</p> <p>13 advised the RSA would be a significant step</p> <p>14 towards the resolution of uncertainty</p> <p>15 regarding PREPA's prepetition debt</p> <p>16 obligations"?</p> <p>17 A. Yes.</p> <p>18 Q. Okay. I'm asking that you're</p> <p>19 advised, is it your understanding that the</p> <p>20 RSA is the only way --</p> <p>21 MR. HAMERMAN: Same objection.</p> <p>22 BY MR. ARASTIA:</p> <p>23 Q. -- to take a significant step</p> <p>24 towards resolving uncertainty?</p> <p>25 A. I'm advised it is a significant</p>	<p>1 F. Chapados - Professional Eyes Only</p> <p>2 step.</p> <p>3 Q. What I'm asking is, have you ever</p> <p>4 been advised that there are other ways to</p> <p>5 take a significant step?</p> <p>6 A. I do not believe I have had those</p> <p>7 discussions.</p> <p>8 Q. Have you sought to have those</p> <p>9 discussions?</p> <p>10 A. I have not sought to have those</p> <p>11 discussions.</p> <p>12 Q. Have you sought to investigate</p> <p>13 alternatives to the RSA as a significant</p> <p>14 step towards a resolution of uncertainty</p> <p>15 regarding PREPA's prepetition debt</p> <p>16 obligations?</p> <p>17 MS. SPILLANE: Objection to form.</p> <p>18 A. I would focus you back on I am</p> <p>19 leading the transformation in the selection</p> <p>20 of a T&D operator. There are other Citi</p> <p>21 colleagues that have more thoroughly</p> <p>22 evaluated potential alternatives --</p> <p>23 Q. Okay.</p> <p>24 A. -- regarding PREPA's legacy</p> <p>25 obligations.</p>
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<p>1 F. Chapados - Professional Eyes Only</p> <p>2 Q. Would that be Mr. Brownstein that</p> <p>3 you talked about earlier or someone on your</p> <p>4 team?</p> <p>5 A. It would be Mr. Brownstein and</p> <p>6 his colleagues.</p> <p>7 Q. Is it your understanding that</p> <p>8 absent an RSA, that any potential operator</p> <p>9 would have liability for legacy bond debt?</p> <p>10 MS. SPILLANE: Objection. Calls</p> <p>11 for a legal conclusion.</p> <p>12 MR. MASHBERG: Objection.</p> <p>13 MR. HAMERMAN: Objection.</p> <p>14 MR. NATBONY: Objection.</p> <p>15 A. Can you clarify your question?</p> <p>16 BY MR. ARASTIA:</p> <p>17 Q. Okay. You indicate that the RSA</p> <p>18 contemplates confirmation order to provide</p> <p>19 operator protection against legacy</p> <p>20 liabilities.</p> <p>21 Absent the RSA, if you didn't</p> <p>22 have the RSA in that equation, is it also</p> <p>23 your understanding that the potential</p> <p>24 operator would have some liability for</p> <p>25 legacy liabilities of PREPA?</p>	<p>1 F. Chapados - Professional Eyes Only</p> <p>2 MR. MASHBERG: Objection to form.</p> <p>3 MR. NATBONY: Objection.</p> <p>4 MR. HAMERMAN: Objection.</p> <p>5 A. Can you restate your question?</p> <p>6 Q. Sure.</p> <p>7 Would it be fair to say that in</p> <p>8 this paragraph 21, you're saying that the</p> <p>9 RSA contemplates a confirmation order and</p> <p>10 that confirmation order is going to provide</p> <p>11 an operator protection against legacy</p> <p>12 liabilities of PREPA?</p> <p>13 A. I believe that is correct.</p> <p>14 Q. Okay. So is it also your</p> <p>15 understanding that without that RSA, the</p> <p>16 operator wouldn't have that protection?</p> <p>17 A. The operator will need some sort</p> <p>18 of protection at the end of the day to know</p> <p>19 that it is not responsible for the legacy</p> <p>20 obligations of PREPA.</p> <p>21 Q. Okay. And that would be a</p> <p>22 confirmation order?</p> <p>23 A. Yes.</p> <p>24 Q. Let's look at paragraph 22. In</p> <p>25 here, we talk about that kilowatt-hour</p>

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<p>1 F. Chapados - Professional Eyes Only</p> <p>2 usage that would be added to customer</p> <p>3 invoices.</p> <p>4 That's that rate that we talked</p> <p>5 about before that would change over time?</p> <p>6 A. Yes.</p> <p>7 Q. Are you aware of the demand,</p> <p>8 something called the Demand Protection Term</p> <p>9 Sheet?</p> <p>10 A. I am aware of it, yes.</p> <p>11 Q. Are you familiar with it?</p> <p>12 A. To a certain extent, yes.</p> <p>13 Q. Are you familiar with a document</p> <p>14 entitled "Recovery Plan Term Sheet"?</p> <p>15 A. I do not know which document</p> <p>16 you're referring to.</p> <p>17 Q. Okay. Going back to the Demand</p> <p>18 Protection Term Sheet, is it your</p> <p>19 understanding that -- well, let me back up.</p> <p>20 You recall how we talked about</p> <p>21 overall rates become an issue or an item</p> <p>22 because ratepayers have to be able to</p> <p>23 afford to pay the rates? That is a</p> <p>24 paraphrase.</p> <p>25 A. Yes.</p>	<p>1 F. Chapados - Professional Eyes Only</p> <p>2 MS. SPILLANE: Objection to form.</p> <p>3 BY MR. ARASTIA:</p> <p>4 Q. If that rate that we talked</p> <p>5 about, this kilowatt-hour usage transition</p> <p>6 charge, if there is a deficiency in that,</p> <p>7 do you know if the Demand Protection Term</p> <p>8 Sheet allows for that charge to increase to</p> <p>9 make up for any past deficiencies?</p> <p>10 A. It is my understanding that the</p> <p>11 RSA does not contemplate a specific linkage</p> <p>12 between the amount of kilowatt hours used.</p> <p>13 It is a fixed charge per kilowatt-hour.</p> <p>14 Q. If you can turn to paragraph 24.</p> <p>15 I don't think you need to turn it. It's on</p> <p>16 page 7.</p> <p>17 (Document review.)</p> <p>18 Q. Here you say in the second</p> <p>19 sentence, "This pending litigation</p> <p>20 introduces uncertainty and potential</p> <p>21 disruption into the transformation</p> <p>22 process."</p> <p>23 Do you see that?</p> <p>24 A. Yes.</p> <p>25 Q. You used the word "potential."</p>
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<p>1 F. Chapados - Professional Eyes Only</p> <p>2 Have you evaluated what that</p> <p>3 potential is?</p> <p>4 A. I have not evaluated what it is.</p> <p>5 Q. Has the uncertainty and potential</p> <p>6 disruption, has that been valued?</p> <p>7 MS. SPILLANE: Objection.</p> <p>8 A. Can you clarify "valued"?</p> <p>9 Q. Sure.</p> <p>10 Have you put -- have you engaged</p> <p>11 in any analysis that would put a dollar</p> <p>12 value on uncertainty and potential</p> <p>13 disruption based on pending litigation?</p> <p>14 A. I have not.</p> <p>15 Q. So this uncertainty of potential</p> <p>16 disruption in the transformation process,</p> <p>17 what do you believe that would be? What</p> <p>18 would be the uncertainty, and what would be</p> <p>19 the potential disruption?</p> <p>20 A. Well, this is regarding the</p> <p>21 receivership motion which would -- the</p> <p>22 monoline insurers would seek a</p> <p>23 court-approved appointed receiver over</p> <p>24 PREPA's operations. The introduction of a</p> <p>25 new third party into PREPA's operations</p>	<p>1 F. Chapados - Professional Eyes Only</p> <p>2 would likely introduce uncertainty and</p> <p>3 potential disruption.</p> <p>4 Q. And where do you base that, that</p> <p>5 belief?</p> <p>6 A. It is based upon my experience.</p> <p>7 Q. I thought that you had said you</p> <p>8 never operated or worked in circumstance</p> <p>9 where there was a receiver appointed.</p> <p>10 MS. SPILLANE: Objection to form.</p> <p>11 A. I believe that is correct, but in</p> <p>12 my experience advising utilities on</p> <p>13 transactions, if there is a third party</p> <p>14 appointed to interject in a process, that</p> <p>15 would disrupt the current flow of</p> <p>16 information and the course of operations.</p> <p>17 Q. Is it your understanding that if</p> <p>18 a receiver was appointed, that AAFAF would</p> <p>19 still have a right of approval over any</p> <p>20 potential transformation?</p> <p>21 A. I do not know.</p> <p>22 Q. Do you know whether or not if a</p> <p>23 receiver was appointed, whether PREPA would</p> <p>24 have any right of approval over any</p> <p>25 potential operation?</p>

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<p>1 F. Chapados - Professional Eyes Only</p> <p>2 A. I do not personally know.</p> <p>3 Q. Okay. Do you know if the PREB</p> <p>4 would have any right of approval or</p> <p>5 disapproval over a transformation if a</p> <p>6 receiver was appointed?</p> <p>7 A. I do not know if a receiver being</p> <p>8 appointed would change the approvals you</p> <p>9 have mentioned.</p> <p>10 Q. So currently you have several</p> <p>11 interested parties that have a right of</p> <p>12 approval over a transformation; is that</p> <p>13 accurate?</p> <p>14 A. That is correct.</p> <p>15 Q. And then potentially if there was</p> <p>16 a receiver, it would just be one party?</p> <p>17 MS. SPILLANE: Objection to form.</p> <p>18 MR. MASHBERG: Objection to form.</p> <p>19 A. Can you clarify your question?</p> <p>20 Q. Well, you don't know if any of</p> <p>21 the current parties with the right of</p> <p>22 approval or disapproval over transformation</p> <p>23 would be able to have a right of approval</p> <p>24 or disapproval if a receiver is appointed?</p> <p>25 A. I do not know how a receiver</p>	<p>1 F. Chapados - Professional Eyes Only</p> <p>2 being appointed would change the approvals</p> <p>3 required for this transformation.</p> <p>4 Q. Have you asked anyone?</p> <p>5 A. I have not asked that question.</p> <p>6 Q. The next paragraph, paragraph 25,</p> <p>7 and, again, just slightly different, but</p> <p>8 here, at the end, you say, "I believe this</p> <p>9 resolution will be an additional benefit to</p> <p>10 the transformation process by eliminating</p> <p>11 uncertainty inherent in litigation" and</p> <p>12 this is the part I want to focus on, "and</p> <p>13 with the appointment of a receiver in</p> <p>14 particular."</p> <p>15 Is this statement based on any</p> <p>16 training or skill or education that you</p> <p>17 have that led you to make that same</p> <p>18 conclusion in paragraph 24, or is there</p> <p>19 something different?</p> <p>20 MS. SPILLANE: Objection to form.</p> <p>21 A. It's the same transactional</p> <p>22 experience.</p> <p>23 Q. And paragraph 26, when you say</p> <p>24 "It's my understanding the RSA is an</p> <p>25 important step in facilitating PREPA's exit</p>
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<p>1 F. Chapados - Professional Eyes Only</p> <p>2 from Title III and, in my view, PREPA's</p> <p>3 emergence from Title III would be important</p> <p>4 to any potential operators," is -- does</p> <p>5 that have to do with the operator</p> <p>6 protection that we talked about a few</p> <p>7 moments ago in paragraph 21, or is there</p> <p>8 another basis that emergence from Title III</p> <p>9 will be important to any potential</p> <p>10 operators?</p> <p>11 MS. SPILLANE: Objection to form.</p> <p>12 A. I think exit from Title III is</p> <p>13 important to any potential operator,</p> <p>14 whether -- for a variety of reasons.</p> <p>15 Q. Okay. Well, what reasons --</p> <p>16 other than the operator protection that you</p> <p>17 had in paragraph 21, what other reason is</p> <p>18 there that you can think of that would make</p> <p>19 emergence from Title III important for any</p> <p>20 potential operator?</p> <p>21 A. At the end of the day, there's</p> <p>22 inherent costs of being in a Title III</p> <p>23 process and, therefore, it does have an</p> <p>24 impact on rates as well.</p> <p>25 Q. Okay. Anything else?</p>	<p>1 F. Chapados - Professional Eyes Only</p> <p>2 A. There could be a variety of</p> <p>3 reasons. I think in the normal course,</p> <p>4 any, you know, normal course business,</p> <p>5 electric utility, would have a preference</p> <p>6 for not being in a bankruptcy-type</p> <p>7 proceeding.</p> <p>8 Q. Okay. Paragraph 27, you're</p> <p>9 talking about, "The RSA eliminates</p> <p>10 uncertainty regarding PREPA's legacy debt</p> <p>11 liabilities and future financial challenges</p> <p>12 which will be important to potential</p> <p>13 operators in formulating their responses to</p> <p>14 the RFP."</p> <p>15 So when you refer to PREPA's</p> <p>16 legacy debt liabilities, is that the same</p> <p>17 operator protection against legacy</p> <p>18 liabilities with PREPA that you referred to</p> <p>19 in paragraph 21 or is that a different</p> <p>20 legacy debt liability?</p> <p>21 MS. SPILLANE: Objection to form.</p> <p>22 MR. NATBONY: Objection to form.</p> <p>23 A. It's broadly the same legacy debt</p> <p>24 liabilities.</p> <p>25 Q. And future financial challenges,</p>

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2 what do you mean when you say "future
3 financial challenges"?

4 A. A utility in the normal course
5 will need to raise capital in order to
6 reinvest in its system for the benefit of
7 its ratepayers.

8 Q. And the T&D operators are
9 expected to raise capital and invest in
10 their capacity as operators?

11 A. The operators will not be
12 investing their own capital into the
13 system, but PREPA will need to raise
14 capital in order to invest in the system.

15 Q. Okay. Because in the next
16 clause, it says, "...which will be
17 important to potential operators in
18 formulating their responses to the RFP."

19 Is the future financial
20 challenges, is that important to PREPA, or
21 how is that important to potential
22 operators?

23 MS. SPILLANE: Objection to form.

24 A. Potential operators will need to
25 know that the utility has access to capital

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2 to invest in its system, like any utility
3 would across the United States.

4 Q. Okay. And what is the basis of
5 that statement?

6 A. Ten years of utility industry
7 expertise.

8 Q. Okay. Did you talk to anybody
9 about this specifically, any potential
10 operators?

11 A. It is my understanding in having
12 worked in this industry for ten years.
13 It's based on that statement.

24 MR. MASHBERG: Let me interrupt
25 here.

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2 Have we designated the
3 transcript? If not, we should, for
4 professional eyes only. We have
5 sensitive information here. I don't
6 know that everything in here would be
7 professional eyes only, but at least
8 for now, until we work out any issues,
9 I request that we do that so that we
10 don't inadvertently get any information
11 out that would be harmful to this
12 process.

13 MR. ARASTIA: So what I'm hearing
14 you say, correct me if I'm wrong, is,
15 as a prophylactic measure, designate it
16 all "professional eyes only" and then
17 in good faith, we'll sit down and we're
18 more accurately designate specific --
19 that's a reasonable request.

20 MR. MASHBERG: I think that's
21 correct. Nobody is waiving any rights
22 at all. We just want to make sure that
23 for the interim --

24 MR. ARASTIA: Okay.

25 MR. MASHBERG: -- that we have

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2 the protections, and then we'll sit
3 together and work it out.

4 MR. ARASTIA: Yeah. I would just
5 ask we do it in a reasonable time after
6 we get the transcript. That's all.
7 Okay? Is that fair?

8 MR. MASHBERG: Thank you.

9 MR. ARASTIA: Thank you.

10 BY MR. ARASTIA:

11 Q. I'm not sure if I asked you on
12 26. It says -- because you say in the
13 beginning "it's my understanding," and I
14 think I asked you about that.

15 But then you say, "In my view,
16 PREPA's emergence from Title III would be
17 important to any potential operators."

18 What's the basis of your view?

19 A. My expertise, my experience.

20 Q. Okay. Let me ask you, if the
21 RSA, if that was approved and in effect
22 tomorrow, would you still need confirmation
23 in order for the transformation to work as
24 you envision it?

25 MR. MASHBERG: Objection to form.

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2 MS. SPILLANE: Objection to form.
3 A. Can you clarify your question?
4 Q. Well, you say, "To the extent the
5 RSA will lead towards confirmation of a
6 plan of adjustment and emergence from Title
7 III, which would be an important step
8 leading to transformation." That is the
9 last sentence of paragraph 27.
10 So what I'm asking you is, if the
11 RSA is approved and goes into effect, is
12 that enough for transformation or do you
13 still need a plan of adjustment?
14 MR. NATBONY: Objection. Lack of
15 foundation.
16 MR. MASHBERG: Objection to form.
17 MR. ARASTIA: I'm sorry. What
18 was that one?
19 MR. MASHBERG: Objection to form.
20 MR. ARASTIA: Oh.
21 A. I believe as I have previously
22 stated, any operator would be interested in
23 having the protections that would come
24 through a confirmation order.
25 Q. Okay.

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2 MR. ARASTIA: Do you want to take
3 lunch now? Do you want -- do you want
4 to eat something now?
5 THE WITNESS: I can do whatever.
6 MR. ARASTIA: Okay. We'll go for
7 a few more minutes then and break at 1.
8 Is that all right? 1 o'clock for
9 lunch?
10 BY MR. ARASTIA:
11 Q. Are you familiar with the
12 definitive RSA?
13 A. I am broadly aware of it.
14 Q. Do you know if there is anything
15 in there that references potential
16 operators of T&D assets?
17 A. I do not know for certain.
18 Q. Do you know whether or not full
19 approval of the RSA at this time is being
20 sought or partial approval?
21 MS. SPILLANE: Objection to form.
22 A. I am not aware of what form of
23 approval is being sought.

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19 [REDACTED]
20 [REDACTED]
21 [REDACTED]
22 [REDACTED]
23 [REDACTED]
24 [REDACTED]
25 [REDACTED]
19 Q. Now you said you're generally, I
20 believe, generally aware of the terms of
21 the RSA?
22 A. Yes.
23 Q. Is there someone on your team or
24 at Citi that is more involved with the
25 specifics of the RSA?

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2 A. David Brownstein from the Citi
3 team would be more involved.
4 Q. Are you familiar with how the RSA
5 would impact transformation if at all?
6 MS. SPILLANE: Objection to form.
7 MR. MASHBERG: Objection to form.
8 A. Can you clarify your statement?
9 It was rather broad.
10 Q. Are you familiar with how the
11 economics of the RSA work?
12 A. I am broadly familiar with them.
13 Q. Okay. And would it be fair to
14 say that that includes -- one aspect would
15 be that charge per kilowatt-hour that we
16 discussed earlier?
17 A. That is a key aspect.
18 Q. Okay. Do you have any
19 understanding how that key aspect of the
20 RSA impacts transformation?
21 A. As I've stated, it is a component
22 of rates to be charged to ratepayers at the
23 end of the day, and operators will be
24 interested in knowing the full rate picture
25 that is being charged to customers. So,